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Manuel Alvarez
Manager, Reg. Pol. & Affairs
manuel.alvarez@sce.com

DOCKET
08-IEP-1G
DATE SEP 0 5 2008
RECD. SEP 0 5 2008

September 5, 2008

California Energy Commission
Dockets Office, MS-4
Re: Docket No. 08-IEP-1G
1516 Ninth Street
Sacramento, CA 95814-5512
docket@energy.state.ca.us

Re: California Energy Commission (Energy Commission) Docket No. 08-IEP-1G: 2008 Integrated Energy Policy Report (IEPR) Update – Self-Generation Incentive Program Cost Benefit Analysis

To Whom It May Concern:

Southern California Edison Company (SCE) appreciates the opportunity to comment on the cost-benefit analysis of the Self-Generation Incentive Program (SGIP) being conducted as part of the 2008 IEPR update proceeding, before TIAX LLC, consultant to the California Energy Commission (CEC), produced a draft of the evaluation results.

Based on information presented at the September 3, 2008 workshop, SCE understands that the SGIP involves about $400 million of incentive payments which have induced about $1 billion of additional private investments in Self Generation (SG) technology. The presentation by the TIAX LLC subcontractor, Jack Faucett Associates (JFA), focused on the macroeconomic effects of the SGIP. While the JFA presentation discussed the economic stimulus benefits to the California economy from additional investment in SGIP technologies, it did not discuss how the SGIP incentives have altered investment and expenditure patterns. A complete analysis should include the effects of higher electricity rates associated with recovering the cost of SGIP incentives from ratepayers. These higher electric rates used for the SGIP incentives displaced other investments that businesses might have made but for the SGIP. The macroeconomic study of SGIP should consider the effect on California's economy of displacing these other investments that businesses might have made.

Another subcontractor to TIAX LLC, Rumla, presented a discussion of grid benefits of SGIP at the September 3, 2008 workshop. This discussion lacked specificity making it difficult to provide full comments at this time. SCE assumes that the General Electric-Multi-Area Production Simulation (GE-MAPS) model will develop estimated prices at each transmission substation or node that will incorporate avoided energy costs, avoided congestion costs, and avoided ancillary service costs associated with SG. TIAX LLC will then use these "avoided costs" to assess SGIP benefits. This is generally appropriate given the relatively small size and disbursed nature of SG benefiting from the SGIP (compared with large central station generation resources). However, the analysis should include some measure of the capacity value of SG resources.

The analysis should not include transmission investment deferral or California Independent System Operator (CAISO) charges. Transmission investment necessarily occurs through construction of major transmission lines which carry large amounts of generation. In general, these transmission investments decrease congestion on the transmission grid, so including an avoided congestion cost component already captures the impacts of SG on the transmission grid. Given the lumpiness of transmission investment, it is best to simply quantify the impacts of SG on congestion costs. CAISO charges are simply a transfer between SGIP participants and non-SGIP participants. As a result, such charges should not be included in the analysis.

The grid benefits information presented at the September 3, 2008 workshop describes a methodology for identifying distribution investments deferral potential. One additional consideration, not addressed at the workshop, is whether there is sufficient certainty that a particular SG facility will operate during a circuit peak. A utility should not curtail service to other customers on the circuit simply because the owner of an SG facility decided not to operate the facility due to maintenance or economic conditions at the time of circuit peak.

SCE supports the proposal of TIAX LLC to use a 7% real discount rate for assessing the private "cash flow" cost and benefits of SGIP. In SCE's view, indirect benefits (e.g., health impacts) should also be assessed at the same 7% discount rate. However, SCE recognizes that some favor a lower discount rate when issues of intergenerational equity are involved, rather than a strict focus on economic efficiency. SCE suggests capturing both view points by running two cases, one with indirect benefits evaluated at the 7% real discount rate (economic efficiency case), and another analysis using a declining discount rate (intergenerational equity case).

SCE looks forward to continuing to work with the CEC and other stakeholders to clarify the issues discussed at the September 3, 2008 workshop. Once again, thank you for the opportunity to submit these comments. If you have any questions or need additional information about SCE's recommendations in these written comments, please contact me at (916) 441-2369.

Very truly yours

/S/MANUEL ALVAREZ

Manuel Alvarez

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